

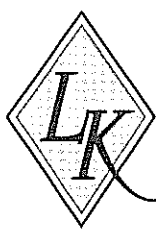
CORUNNA PUBLIC SCHOOLS

CORUNNA, MICHIGAN

AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2006

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*Lewis & Knopf, CPAs, P.C.*

Serving You with Trust and Integrity

July 21, 2006

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education of  
Corunna Public Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Corunna Public Schools, as of and for the year ended June 30, 2006, which collectively comprise the school district's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corunna Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Corunna Public Schools as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated July 21, 2006 on our consideration of the Corunna Public Schools' internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis information on pages II - VII, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Corunna Public Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Lewis & Knopf P.C.*

LEWIS & KNOPF, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

CORUNNA PUBLIC SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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The Corunna Public Schools is a Preschool through Twelfth Grade (P-12) school district located in Shiawassee County, Michigan. The district is comprised of one preschool, three elementary schools (grades K-5), one middle school (grades 6-8), and one high school (grades 9-12). Additionally, the district contracts with Baker College of Owosso to conduct an alternative education program for certain high school students. In total, the district's pupil count for the 2005-2006 school year was 2,384, a welcome increase from the 2004-2005 count of 2,297. This continues a consistent pattern of increasing student count due in large part to the district's success as a School of Choice. The pupil count number does not include those enrolled or participating in other successful educational programs the district offers, such as the preschool and school-age child care programs, the Adult Education program, and Community Education's enrichment classes and camps, which are offered throughout the year.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District-wide Financial Statements and Fund Financial Statements.

**District-wide Financial Statements:**

The District-wide Financial Statements are full accrual basis statements. In other words, they report all of the district's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Service fund solely for the payment of long term principal or interest are grouped with unrestricted assets of the General fund. Capital assets and obligations of the district are reported in the Statement of Net Assets of the District Wide Financial Statements.

One of the most important questions asked about a school district is, "As a whole, what is the school district's financial condition as a result of the year's activities?" The Statements of Net Assets and the Statements of Activities, which appear first in the school district's financial statements, report information on the school district as a whole and its activities in a way that helps one answer this question. These statements include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Net Assets Summary (next page) and its related Statements of Net Assets report the Corunna Public Schools' net assets – the difference between assets and liabilities – as one way to measure the school district's financial health or financial position. Over time, increases or decreases in the school district's net assets – as reported in the following Results of Operations and its related Statement of Activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the school district's operating results. However, a school district's goal is to provide services to its students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety and wellbeing of the students, to assess the overall health of the school district.

The Statement of Net Assets and the Statement of Activities report the governmental activities of the school district, which encompasses all of its services, including instruction, support services, community services, athletics, and food services. Property taxes, State Aid, and state and federal grants finance most of these activities.

**Fund Financial Statements:**

The school district's Fund Financial Statements provide detailed information about the most significant funds, not the school district as a whole. Some funds are required to be established by State law and by bond covenants. However, the school district establishes other funds to help it control and manage money for particular purposes (the Food Service fund and Athletics fund are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The various funds of the school district use the following accounting approach:

CORUNNA PUBLIC SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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**Fund Financial Statements: (Continued)**

Governmental funds – All of the school district’s services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the school district and the services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the school district’s programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation format.

In the Fund Financial Statements, purchased capital assets are reported as expenditures in the year of acquisition. The issuance of debt is recorded as a financial resource. The current year’s payments of principal and interest on long-term obligations are recorded as expenditures. Future years’ debt obligations are not recorded.

**The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities**

The school district is the trustee, or fiduciary, for its student activity funds. All of the school district’s fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. We exclude these activities from the school district’s other financial statements because it cannot use these assets to finance its operations. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**SUMMARY OF NET ASSETS:**

The following summarizes the net assets at the fiscal years ended June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Current Assets	\$5,374,753	\$4,538,688
Non-Current Assets	<u>13,544,777</u>	<u>13,979,568</u>
<u>TOTAL ASSETS</u>	<u>\$18,919,530</u>	<u>\$18,518,256</u>
<u>LIABILITIES</u>		
Current Liabilities	\$4,195,173	\$3,155,259
Long-Term Liabilities	<u>5,816,809</u>	<u>6,709,069</u>
Total Liabilities	\$10,011,982	\$9,864,328
<u>NET ASSETS</u>		
Invested in Capital Assets - Net of Related Debt	7,770,573	7,824,363
Restricted - Debt Service	121,977	152,486
Restricted - Capital Projects	8,031	59
Unrestricted	<u>1,006,967</u>	<u>677,020</u>
Total Net Assets	<u>\$8,907,548</u>	<u>\$8,653,928</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$18,919,530</u>	<u>\$18,518,256</u>

CORUNNA PUBLIC SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**RESULTS OF OPERATIONS:**

For the fiscal years ended June 30, 2006 and 2005, the district-wide results of operations were:

	<u>2006</u>	<u>2005</u>
<b><u>REVENUES</u></b>		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$1,339,489	\$1,219,548
Property Taxes Levied for Debt Service	586,348	561,130
State of Michigan Unrestricted Foundation Aid	14,713,360	13,785,353
Other General Revenues	<u>235,700</u>	<u>228,409</u>
Total General Revenues	\$16,874,897	\$15,794,440
<u>Operating Grants:</u>		
Federal	636,821	603,863
State of Michigan	1,307,462	1,009,487
Other Operating Grants	<u>13,235</u>	<u>591,104</u>
Total Operating Grants	\$1,957,518	\$2,204,454
<u>Charges for Services:</u>		
Food Service	496,820	462,973
Athletics	115,159	163,089
Other Charges for Services	<u>373,910</u>	<u>302,785</u>
Total Charges for Services	<u>\$985,889</u>	<u>\$928,847</u>
Total Revenues	\$19,818,304	\$18,927,741
<b><u>EXPENSES</u></b>		
Instruction & Instructional Support	10,609,024	12,246,220
Support Services	6,420,743	6,119,954
Community Services	145,213	38,561
Food Service	883,182	813,410
Athletics	552,431	556,686
Other Capital Projects	230,322	201,741
Interest on Long-Term Debt	253,693	263,787
Depreciation	<u>470,076</u>	<u>432,526</u>
Total Expenses	<u>\$19,564,684</u>	<u>\$20,672,885</u>
<b><u>INCREASE IN NET ASSETS</u></b>	\$253,620	(\$1,745,144)
<b><u>BEGINNING NET ASSETS</u></b>	<u>8,653,928</u>	<u>10,399,072</u>
<b><u>ENDING NET ASSETS</u></b>	<u><u>\$8,907,548</u></u>	<u><u>\$8,653,928</u></u>

CORUNNA PUBLIC SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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## **GOVERNMENT- WIDE FINANCIAL STATEMENTS**

### Analysis of Statement of Net Assets:

During the year ended June 30, 2006, the district's Total Net Assets increased by \$253,620 to a total of \$8,907,548. The largest portion of the net assets is the district's investment in capital assets. Net Assets Invested in Capital Assets-Net of Related Debt) decreased by \$53,790 during the year due to depreciation and principal payments on related debt exceeding purchases of new capital assets. The district's Unrestricted Net Assets increased by \$329,947 during the year and the restricted portion of the net assets decreased by \$22,537. The Unrestricted Net Assets may be used to fund the educational services provided to students. The Restricted Net Assets consist of the Restricted Debt Service funds that may only be used to pay bonded debt and restricted Capital Projects funds that may only be used to fund major buildings or grounds costs (e.g., new roofs, additions, parking lot resurfacing, boilers, etc.).

### Analysis of Statement of Activities:

The district's overall revenues exceeded its expenses for the year by \$253,620. The total revenues increased by \$1,085,251, or almost 7% over last year's amounts. One major reason for this change in revenue is the funding received for the additional eighty-seven students in the pupil count. Expenditures decreased by \$913,513, or 5% from last year. A factor in this significant decrease is the exit of twenty-seven top-of-the-pay-scale teachers due to the previous year's early retirement incentive, and their replacement by first-step teachers. The savings in wages and benefits costs is major.

## **FUND FINANCIAL STATEMENTS**

### Analysis of Financial Position:

The focus of the district's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. An analysis of changes in the governmental funds is as follows:

#### General Fund

The district's General fund is the primary operating fund of the district. Unreserved fund balance for the General fund decreased by \$173,109 during the year, a shortfall anticipated and approved by the Board (see next page). The major source of General fund revenues is state aid and local property taxes. An analysis of them is as follows:

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined from the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count
- c. The district's non-homestead tax levy

2. Per-Student Foundation Allowance:

Annually, the State of Michigan establishes the per-student foundation allowance. The Corunna Public Schools' foundation allowance was \$6,875 per student for the 2005-2006 school year.

CORUNNA PUBLIC SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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**FUND FINANCIAL STATEMENTS (Continued)**

Analysis of Financial Position (Continued):

General Fund (Continued)

3. Student Enrollment:

The district's student enrollment for the fall count of 2005-2006 was 2,384 students, an increase of 87 students from the prior year.

4. Property Taxes Levied For General Operations (General Fund Non-Homestead Taxes)

In 2005-2006 the district levied 18 mills of property taxes for operations (General fund) on non-homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The district's non-homestead property tax revenue for the 2005-2006 fiscal year was \$1,338,553, an increase of \$128,124 from the prior year.

**GENERAL FUND BUDGETARY HIGHLIGHTS:**

**GENERAL FUND BUDGET VS. ACTUAL**

Fiscal Year	Original Budget	Final Budget	Actual	Variance	Variance Actual
				Original & Final Budget %	
Revenue	\$17,991,417	\$18,151,000	\$18,158,890	0.89	0.04
Expenditures	18,282,094	18,284,000	18,331,999	0.01	0.26
<u>TOTAL</u>	<u>(\$290,677)</u>	<u>(\$133,000)</u>	<u>(\$173,109)</u>		

**ANALYSIS OF BUDGETS:**

All school districts are required to present to the public and to approve a budget for the next fiscal year by June 30 of the current fiscal year. The Corunna Public Schools Board of Education adopted the original 2005-2006 budget on June 20, 2005. In answer to significant changes that occur in revenues and expenditures throughout the year, our Board may present and adopt a revised budget, as it did on June 19, 2006. The above report shows the General Fund's budgets, original and final, versus the actual revenues and expenses for the year. One can easily see how the budget is, in many ways, an educated guess, at best, and a moving target, in any event.

As with last year, the Board allowed the district to operate on a deficit budget. Since the district's fund equity is healthy, the Board chose to not make reductions in programs, services or personnel but, instead, to dip into its savings again, so to speak. The Board agreed that this year's deficit in the General fund was manageable and acceptable in order to keep the district's mission in the forefront.

CORUNNA PUBLIC SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**CAPITAL ASSET AND DEBT ADMINISTRATION**

A. Debt, Principal Payments

The district made principal payments on bonded, long-term debt obligations that reduced the amount of the district's long-term liabilities as follows:

	Principal Balance 7-01-05	Increases 6-30-06	Principal Payments 6-30-06	Principal Balance 6-30-06
Bonds Payable	\$6,155,205	\$0	\$381,001	\$5,774,204
Teacher Buy Out	1,392,298	0	504,042	888,256
<u>TOTAL</u>	<u>\$7,547,503</u>	<u>\$0</u>	<u>\$885,043</u>	<u>\$6,662,460</u>

The Bonds Payable entry (above) represents what is left from the district's bond issue in 2001, plus the remaining amount of the state's Durant settlement bonds. The entry for Teacher Buy-out is the amount owed towards the Early Retirement Incentive offered to teachers and accepted by twenty-seven of them.

B. Net Investment in Capital Assets

The district's net investment in capital assets decreased by \$434,791 during the fiscal year. This can be summarized as follows:

	Balance 7-1-05	Additions	Deductions	Balance 6-30-06
Capital Assets	\$24,617,604	\$345,132	\$125,658	\$24,837,078
Less: Accumulated Depreciation	(10,638,036)	(779,923)	(125,658)	(11,292,301)
<u>Net Investment Capital Outlay</u>	<u>\$13,979,568</u>	<u>(\$434,791)</u>	<u>\$0</u>	<u>\$13,544,777</u>

Significant additions were the paving of parking lots and purchase of a boiler, bus and air conditioner.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

\* Foundation allowance

The foundation amount for the 2006-2007 school year will increase by \$210 to \$7,085 per student. The district's September 2006 enrollment is expected to increase by 25 students.

\* Retirement rates

General fund expenses are expected to increase. The majority of this increase is in retirement expenses. The Michigan Public School Employees retirement rate will increase to 17.74% of all wages and salaries next year. The rate for 2005-2006 was 16.34%.

\* The Corunna Public Schools 2006/2007 adopted budget is as follows:

<u>REVENUE</u>	\$18,621,700
<u>EXPENDITURES</u>	<u>18,923,200</u>
<u>NET (UNDER) BUDGET</u>	<u>(\$301,500)</u>

CORUNNA PUBLIC SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens and taxpayers with a general overview of the district's finances. Questions about this report or requests for additional information can be directed to the Business Office, Corunna Public Schools.

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2006

	<u>Governmental Activities</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash and Cash Equivalents	\$607,189
Investments	1,780,484
Accounts Receivable	37,583
Due from Other Governmental Units	2,871,803
Prepaid Expenses	64,036
Inventory	13,658
Total Current Assets	<u>\$5,374,753</u>
<u>NON-CURRENT ASSETS</u>	
Capital Assets	24,837,078
Less: Accumulated Depreciation	<u>(11,292,301)</u>
Total Noncurrent Assets	<u>\$13,544,777</u>
<u>TOTAL ASSETS</u>	\$18,919,530
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	249,580
State Aid Note Payable	2,000,000
Accrued Expense	59,913
Salaries Payable	1,040,029
Current Portion of Long-Term Obligations	845,651
Total Current Liabilities	<u>\$4,195,173</u>
<u>NON-CURRENT LIABILITIES</u>	
Noncurrent Portion of Long-Term Obligations	<u>5,816,809</u>
<u>TOTAL LIABILITIES</u>	\$10,011,982
<u>NET ASSETS</u>	
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	7,770,573
Restricted for:	
Debt Retirement	121,977
Capital Projects	8,031
Unrestricted	<u>1,006,967</u>
<u>TOTAL NET ASSETS</u>	<u>\$8,907,548</u>

See accompanying notes to the basic financial statements.

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue &amp; Change in Net Assets</u>
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Instruction	\$10,609,024	\$290,371	\$1,475,894	(\$8,842,759)
Support Services	6,420,743	15,226	104,725	(6,300,792)
Community Services	145,213	68,313	0	(76,900)
Food Service	883,182	496,820	376,899	(9,463)
Athletics	552,431	115,159	0	(437,272)
Other Capital Projects	230,322	0	0	(230,322)
Interest - Long-Term Obligations	253,693	0	0	(253,693)
Depreciation - Unallocated	470,076	0	0	(470,076)
<u>TOTALS</u>	<u>\$19,564,684</u>	<u>\$985,889</u>	<u>\$1,957,518</u>	<u>(\$16,621,277)</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				1,925,837
State Aid				14,713,360
Investment Earnings				74,654
Miscellaneous				161,046
Total General Revenues and Transfers				<u>\$16,874,897</u>
Change in Net Assets				\$253,620
Net Assets - Beginning - As Restated				<u>8,653,928</u>
<u>Net Assets - Ending</u>				<u>\$8,907,548</u>

See accompanying notes to the basic financial statements.

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AS OF JUNE 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$415,103	\$192,086	\$607,189
Investments	1,780,484	0	1,780,484
Accounts Receivable	36,720	863	37,583
Due from Other Governmental Units	2,865,689	6,114	2,871,803
Due from Other Funds	13,614	0	13,614
Prepaid Expenses	56,849	7,187	64,036
Inventory	0	13,658	13,658
<u>TOTAL ASSETS</u>	<u>\$5,168,459</u>	<u>\$219,908</u>	<u>\$5,388,367</u>
<u>LIABILITIES</u>			
Accounts Payable	\$248,725	\$855	\$249,580
State Aid Note Payable	2,000,000	0	2,000,000
Due to Other Funds	0	13,614	13,614
Salaries Payable	1,040,029	0	1,040,029
Total Liabilities	<u>\$3,288,754</u>	<u>\$14,469</u>	<u>\$3,303,223</u>
<u>FUND BALANCES</u>			
Reserved For:			
Inventory	0	13,658	13,658
Debt Retirement	0	121,977	121,977
Capital Projects	0	8,031	8,031
Unreserved:			
Undesignated, Reported In:			
General Fund	1,879,705	0	1,879,705
School Service Funds	0	61,773	61,773
Total Fund Balances	<u>\$1,879,705</u>	<u>\$205,439</u>	<u>\$2,085,144</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$5,168,459</u>	<u>\$219,908</u>	<u>\$5,388,367</u>

See accompanying notes to the basic financial statements.

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
AS OF JUNE 30, 2006

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Total Governmental Fund Balances:	\$2,085,144
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$24,837,078 and the accumulated depreciation is \$11,292,301	13,544,777
Accrued Interest on Long-Term Debt	(59,913)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Bonds Payable	(5,774,204)
Teacher Buy Out	<u>(888,256)</u>
<u>TOTAL NET ASSETS -</u> <u>GOVERNMENTAL ACTIVITIES</u>	<u>\$8,907,548</u>

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES</u>			
Local Sources	\$1,845,075	\$1,256,307	\$3,101,382
State Sources	15,668,173	54,720	15,722,893
Federal Sources	298,681	338,140	636,821
Total Revenues	<u>\$17,811,929</u>	<u>\$1,649,167</u>	<u>\$19,461,096</u>
<u>EXPENDITURES</u>			
Current:			
Instruction	11,046,270	0	11,046,270
Student Services	415,238	0	415,238
Instructional Support	761,328	0	761,328
General Administration	299,495	0	299,495
School Administration	1,335,555	0	1,335,555
Business Administration	296,013	0	296,013
Operation & Maintenance of Plant	1,983,307	0	1,983,307
Transportation	833,826	0	833,826
Support Services - Other	334,426	0	334,426
Community Services	145,213	0	145,213
Food Service	0	1,467,406	1,467,406
Debt Service	0	638,597	638,597
Capital Outlay	0	452,737	452,737
Total Expenditures	<u>\$17,450,671</u>	<u>\$2,558,740</u>	<u>\$20,009,411</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	\$361,258	(\$909,573)	(\$548,315)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers from (to) Other Funds	(871,900)	871,900	0
Other Transfers	337,533	10,247	347,780
Total Other Financing Sources (Uses)	<u>(\$534,367)</u>	<u>\$882,147</u>	<u>\$347,780</u>
Net Change in Fund Balance	(\$173,109)	(\$27,426)	(\$200,535)
<u>FUND BALANCE - BEGINNING</u>	<u>2,052,814</u>	<u>232,865</u>	<u>2,285,679</u>
<u>FUND BALANCE - ENDING</u>	<u>\$1,879,705</u>	<u>\$205,439</u>	<u>\$2,085,144</u>

See accompanying notes to the basic financial statements.

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006

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Total net change in fund balances - governmental funds	(\$200,535)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	(434,791)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	381,001
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Decrease in Teacher Buy Outs	504,042
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Change in accrued interest on long-term liabilities	<u>3,903</u>
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<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u>\$253,620</u>
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CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
AS OF JUNE 30, 2006

	<u>Trust &amp; Agency</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	<u>\$122,186</u>
<u>TOTAL ASSETS</u>	<u><u>\$122,186</u></u>
<u>LIABILITIES</u>	
Due to Student Groups	<u>\$122,186</u>
<u>TOTAL LIABILITIES</u>	<u><u>\$122,186</u></u>

See accompanying notes to the basic financial statements.

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Local Sources	\$1,657,548	\$1,842,600	\$1,845,075	\$2,475
State Sources	15,609,062	15,658,600	15,668,173	9,573
Federal Sources	334,807	300,400	298,681	(1,719)
Total Revenues	<u>\$17,601,417</u>	<u>\$17,801,600</u>	<u>\$17,811,929</u>	<u>\$10,329</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	11,048,190	10,907,600	11,046,270	(138,670)
Student Services	434,564	437,389	415,238	22,151
Instructional Support	790,106	784,211	761,328	22,883
General Administration	336,150	309,648	299,495	10,153
School Administration	1,473,624	1,472,528	1,335,555	136,973
Business Administration	286,957	283,812	296,013	(12,201)
Operation & Maintenance of Plant	1,785,740	1,857,660	1,983,307	(125,647)
Transportation	795,756	872,671	833,826	38,845
Support Services - Other	428,714	419,012	334,426	84,586
Community Services	62,293	60,369	145,213	(84,844)
Total Expenditures	<u>\$17,442,094</u>	<u>\$17,404,900</u>	<u>\$17,450,671</u>	<u>(\$45,771)</u>
Excess of Revenues Over Expenditures	<u>\$159,323</u>	<u>\$396,700</u>	<u>\$361,258</u>	<u>(\$35,442)</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>(450,000)</u>	<u>(529,700)</u>	<u>(534,367)</u>	<u>(4,667)</u>
Net Change in Fund Balance	<u>(\$290,677)</u>	<u>(\$133,000)</u>	<u>(\$173,109)</u>	<u>(\$40,109)</u>
<u>FUND BALANCE - BEGINNING</u>			<u>2,052,814</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$1,879,705</u>	

See accompanying notes to the basic financial statements.

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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1) REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The district receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the district is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Corunna Public Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the district’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the district’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The district’s basic financial statements include both government-wide (reporting the district as a whole) and fund financial statements (reporting the district’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the district’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The district’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The district first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the district’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The district does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the district are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The general fund is used to record the general operations of the district pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds

Special revenue funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The district maintains full control of these funds. The district maintains two school service funds: food service and athletic funds.

Debt Retirement Fund

The debt retirement fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund

The capital projects fund is used to account for the acquisition and construction of major facilities by the school district.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The district's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The district reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the district receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include amounts in demand deposits and certificates of deposit.

The district reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper (if applicable) are recorded at amortized cost.

State statutes authorize the district to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase. The district is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption.

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The school district maintains a capitalization threshold of one hundred dollars. The school district does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The school district reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the school district’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS (Continued)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

K) FUND BALANCE RESERVES

The school district reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the school district or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The school district follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

- 1) Prior to June 30, the Superintendent submits to the school Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the school district, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) BUDGETARY DATA (Continued)

- 5) The school Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

1968 PA 2 provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the school district's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the school district for these budgetary funds were adopted to the functional level.

During the year ended June 30, 2006, the district incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

4) DEPOSITS AND INVESTMENTS

As of June 30, 2006, the district had the following investments.

<b>Investment Type</b>	<b>Fair value</b>	<b>Weighted Average Maturity (Years)</b>	<b>Standard &amp; Poor's Rating</b>	<b>%</b>
MILAF External Investment Pool - MICMS	\$ 449	0.0027	AAAm	0.03%
MILAF External Investment Pool - MIMAX	22	0.0027	AAAm	0.00%
Guaranteed Investment Contract (GIC)	<u>1,780,013</u>	<u>0.1343</u>	A1+	<u>99.97%</u>
Total fair value	<u>\$ 1,780,484</u>			<u>100.00%</u>
Portfolio weighted average maturity		<u>0.1343</u>		

1 day maturity equals 0.0027, one year equals 1.00.

**Interest rate risk.** In accordance with its investment policy, the district will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the district's cash requirements.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2006, the district's investment in the investment pool was rated AAA by Standards & Poor's and AAA by Moody's Investors Service.

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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4) DEPOSITS AND INVESTMENTS (Continued)

**Concentration of credit risk.** The district will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the district's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5% of the district's investments are in Guaranteed Investment Accounts which represents 99% of the district's total investments.

**Custodial credit risk – deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the district's deposits may not be returned to it. As of June 30, 2006, \$999,884 of the district's bank balance of \$1,234,649 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the district's name.

**Custodial credit risk – investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The district will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the district will do business.

The district's Guaranteed Investment Contract is collateralized and invested for the purpose of paying off the Note Payable disclosed in Note 9.

The Investment Agreement, dated as of August 19, 2005, by and among Chase Bank, National Association, as the Depository on behalf of both the participating Michigan School districts and the Michigan Municipal Bond Authority, and Citigroup Global Markets, Inc. as Provider.

The net proceeds from the sale of the Series B-1 Notes were loaned by the Authority to Michigan school districts. Such loans were repaid with monthly set-aside installments deposited with the Depository for investment under the Investment Agreement. Set-aside installments are deposited under the Investment Agreement versus Permitted Investments (collateral securities) equaling at least 103% of the deposited amount and such Permitted Investments are held by the Depository in a fiduciary capacity.

The Guaranteed Rate under this Investment Agreement (commonly referred to as guaranteed investment contract – GIC or collateralized investment agreement – CIA is 4.09% (simple interest actual days elapsed over a 365 day year).

The guarantor is Citigroup Global Markets Holdings, Inc., as guarantor of the Provider's obligations under this Investment Agreement.

**Foreign currency risk.** The district is not authorized to invest in investments which have this type of risk.

The above amounts as previously report in Note 4:

Deposits – Including Fiduciary Funds of \$122,186	\$ 729,375
Investments	<u>1,780,484</u>
<u>TOTAL</u>	<u>\$ 2,509,859</u>

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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4) DEPOSITS AND INVESTMENTS (Continued)

The above amounts are reported in the financial statements as follows:

Cash Agency Fund	\$ 122,186
Cash – District Wide	607,189
Investments – District Wide	<u>1,780,484</u>
 <u>TOTAL</u>	 <u>\$ 2,509,859</u>

5) PROPERTY TAXES

The school district levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the district through February. The delinquent real property taxes of the district are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the district for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

6) RECEIVABLES

Receivables at June 30, 2006, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 2,828,689
Federal Grants	<u>43,114</u>
 <u>TOTAL GOVERNMENTAL ACTIVITIES</u>	 <u>\$ 2,871,803</u>

7) UNEMPLOYMENT COMPENSATION

The district is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the district must reimburse the Employment Commission for all benefits charged against the district for the year. As of June 30, 2006, the school district had \$3,902 of estimated claims in conjunction with the program.

8) COMPENSATED ABSENCES

Accumulated unpaid sick pay and personal days are not accrued by the school district. Substantially all district employees are allowed to accumulate a limited number of sick days; however, these days do not vest to the employee and are not payable upon termination. Accumulated unpaid sick and personal days for the school district at June 30, 2006, was \$1,997,984.

9) SHORT-TERM DEBT

On August 19, 2005, the district borrowed \$2,000,000 at 2.87% per annum from Chase Bank on a State Aid Anticipation Note. The short-term note proceeds were used to meet cash flow needs. The note matures August 18, 2006. The balance as of June 30, 2006 was \$2,000,000.

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

10) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	BALANCE JULY 1, 2005	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2006
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$20,850,276	\$209,373	\$0	\$21,059,649
Land Improvements	603,153	55,031	0	658,184
Equipment and Furniture	1,741,405	16,577	0	1,757,982
Vehicles	1,422,770	64,151	125,658	1,361,263
Totals at Historical Cost	<u>\$24,617,604</u>	<u>\$345,132</u>	<u>\$125,658</u>	<u>\$24,837,078</u>
Less: Accumulated Depreciation				
Buildings and Improvements	(8,162,436)	(465,354)	0	(8,627,790)
Land Improvements	(319,196)	(13,604)	0	(332,800)
Equipment and Furniture	(1,033,685)	(215,555)	0	(1,249,240)
Vehicles	(1,122,719)	(85,410)	(125,658)	(1,082,471)
Total Accumulated Depreciation	<u>(\$10,638,036)</u>	<u>(\$779,923)</u>	<u>(\$125,658)</u>	<u>(\$11,292,301)</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$13,979,568</u>	<u>(\$434,791)</u>	<u>\$0</u>	<u>\$13,544,777</u>

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Instruction	\$ 66,796
Support Services	227,273
Food Service	413
Athletics	15,365
Unallocated	<u>470,076</u>
<u>TOTAL DEPRECIATION EXPENSE</u>	<u>\$ 779,923</u>

Investment in capital assets – net of related debt consists of the following:

Capital Assets	\$ 24,837,078
Less: Accumulated Depreciation	(11,292,301)
Less: Long-Term Liabilities	<u>(5,774,204)</u>
<u>TOTAL</u>	<u>\$ 7,770,573</u>

11) RENTAL INCOME

The district is currently leasing the Barber Shop Building located at 128 North Shiawassee Street. The lease calls for monthly payments of \$316 for 2006, and expires on December 31, 2006.

The district is currently leasing a house. The lease calls for monthly payments of \$600 a month and is renewed annually.

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

12) SELF INSURANCE POOL

The school district participates in a public entity risk pool (self-insurance pool) for its workers' compensation, property and casualty, general liability, and boiler insurance. The pool is through the MASB/SET/SEG and is administered by Corporate Services. The pool provides for reinsurance by various insurance companies at various levels, depending on the coverage. Should the pool experience significant losses in the aggregate, the school district may be required to pay additional monies to the pool. At present, the MASB/SET/SEG has not required additional funds, but rather has issued refunds based on experience gains over experience losses over the last few years. Premiums for the year ended June 30, 2006 were \$156,529 and the school district received a dividend refund of \$20,338.

13) GENERAL LONG-TERM DEBT

A) 2001 School Building and Site Bonds

Corunna Public Schools has issued General Obligation Bonds dated July 13, 2001, in the amount of \$6,685,000, bearing interest at rates varying from 4.100% to 4.375% per annum. The balance of the bonds as of June 30, 2006 was \$5,640,000.

B) Durant Resolution Package Bonds

Corunna Public Schools issued Durant Resolution Bonds on November 24, 1998 in the amount of \$227,286 at the interest rate of 4.7613%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2006 was \$134,204. The legislature refinanced the repayment schedule during the year ended June 30, 2003.

C) Teacher Buy-Out

The district pays EPC for paying buy-outs plus a \$5,200 per year consulting fee. The liability to ESP is payable over three years with interest. The balance as of June 30, 2006 is \$888,256.

D) Annual Principal Requirements

The annual principal requirements for all debts outstanding as of June 30, 2006 are as follows:

	TEACHER BUYOUT	BONDS PAYABLE	INTEREST	TOTAL
June 30, 2007	\$444,128	\$401,523	\$264,436	\$1,110,087
June 30, 2008	444,128	422,074	247,800	1,114,002
June 30, 2009	0	447,649	207,007	654,656
June 30, 2010	0	468,251	188,462	656,713
June 30, 2011	0	534,931	187,370	722,301
June 30, 2012-2016	0	2,854,776	516,071	3,370,847
June 30, 2017	0	645,000	28,218	673,218
<u>TOTAL</u>	<u>\$888,256</u>	<u>\$5,774,204</u>	<u>\$1,639,364</u>	<u>\$8,301,824</u>

The payment dates of sick days payable is undeterminable. The interest expenditures on long-term obligations for the year were \$270,223.

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

13) GENERAL LONG-TERM DEBT (Continued)

E) Changes in General Long-Term Debt

	BALANCE			BALANCE	AMOUNT DUE
<u>Governmental Activities:</u>	JULY 1, 2005	ADDITIONS	DEDUCTIONS	JUNE 30, 2006	IN ONE YEAR
Bonds Payable	\$6,155,205	\$0	\$381,001	\$5,774,204	\$401,523
Teacher Buy Out	1,392,298	0	504,042	888,256	444,128
<u>TOTAL</u>	<u>\$7,547,503</u>	<u>\$0</u>	<u>\$885,043</u>	<u>\$6,662,460</u>	<u>\$845,651</u>

14) INTERFUND BALANCES

Interfund balances at June 30, 2006 consisted of the following:

DUE FROM	
<b>DUE TO</b>	SPECIAL
	REVENUE
	FUND
	<u>General Fund</u>
	<u>\$13,614</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

15) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2006, consisted of the following:

TRANSFERS FROM	
<b>TRANSFERS TO</b>	GENERAL
	FUND
	Special Revenue Fund
	Other Capital Projects
	<u>TOTAL</u>
	<u>\$871,900</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them (2) move receipts restricted to debt service from the funds collecting the receipts to the fund servicing the debt as debt payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

16) DEFINED BENEFIT PENSION PLAN

Plan Description

The school district participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the school district. The MPERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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16) DEFINED BENEFIT PENSION PLAN (Continued)

Funding Policy

Employer contributions to the MPSERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 14.87 percent for the period July 1, 2005 through September 30, 2005 and 16.34 percent for the period October 1, 2005 through June 30, 2006 of the covered payroll to the plan. Basic plan members make no contributions, but those who are not basic members contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The school district's contributions to the MPSERS pension plan for the years ended June 30, 2006, 2005 and 2004 were \$1,631,455, \$1,482,010 and \$1,282,590, respectively.

Postemployment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the school district's total contribution to the MPSERS pension plan discussed above.

17) RISK MANAGEMENT

The district is exposed to various risks of loss in conducting its operations, from property and casualty, theft, damage to various tort and liability claims and worker's compensation claims. The district limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. The pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The district's management believes that participation in this pool provides sufficient coverage to protect the district from significant adverse financial impact.

18) CONTINGENCIES AND COMMITMENTS

The district participates in a number of federally assisted grant programs, principal of which are the Title I and Nutrition Cluster grants. These programs are subject to program compliance audits. The audits of these programs for and including the year ended June 30, 2006, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time; although the district expects such amounts, if any, to be immaterial.

19) SUBSEQUENT EVENT

The district borrowed \$2,500,000 from Chase Bank on a State Aid Anticipation Note. The note proceeds will be used to meet cash flow needs for the 2006-2007 fiscal year.

OTHER SUPPLEMENTAL  
INFORMATION

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS  
AS OF JUNE 30, 2006

	Special Revenue Fund	Debt Service Fund	Other Capital Projects Fund	Total Other Governmental Funds
<u>ASSETS</u>				
Cash and Cash Equivalents	\$61,336	\$121,114	\$9,636	\$192,086
Accounts Receivable	0	863	0	863
Due from Other Governmental Units	6,114	0	0	6,114
Prepaid Expenses	7,187	0	0	7,187
Inventory	13,658	0	0	13,658
<u>TOTAL ASSETS</u>	<u>\$88,295</u>	<u>\$121,977</u>	<u>\$9,636</u>	<u>\$219,908</u>
<u>LIABILITIES</u>				
Accounts Payable	\$250	\$0	\$605	\$855
Due to Other Funds	12,614	0	1,000	13,614
Total Liabilities	\$12,864	\$0	\$1,605	\$14,469
<u>FUND BALANCES</u>				
Reserved For:				
Inventory	13,658	0	0	13,658
Debt Retirement	0	121,977	0	121,977
Capital Projects	0	0	8,031	8,031
Unreserved:				
Undesignated, Reported In:				
School Service Fund	61,773	0	0	61,773
Total Fund Balances	\$75,431	\$121,977	\$8,031	\$205,439
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$88,295</u>	<u>\$121,977</u>	<u>\$9,636</u>	<u>\$219,908</u>

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
OTHER GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue Fund	Debt Service Fund	Other Capital Projects Fund	Total Other Governmental Funds
<u>REVENUES</u>				
Local Sources	\$663,718	\$592,127	\$462	\$1,256,307
State Sources	38,759	15,961	0	54,720
Federal Sources	338,140	0	0	338,140
Total Revenues	<u>\$1,040,617</u>	<u>\$608,088</u>	<u>\$462</u>	<u>\$1,649,167</u>
<u>OTHER FINANCING SOURCES</u>				
Refund Prior Year Expenditures	0	0	10,247	10,247
Transfers from Other Funds	421,900	0	450,000	871,900
Total Other Financing Sources	<u>\$421,900</u>	<u>\$0</u>	<u>\$460,247</u>	<u>\$882,147</u>
Total Revenues & Other Financing Sources	<u>\$1,462,517</u>	<u>\$608,088</u>	<u>\$460,709</u>	<u>\$2,531,314</u>
<u>EXPENDITURES</u>				
Food Service & Athletics	1,467,406	0	0	1,467,406
Debt Service	0	638,597	0	638,597
Capital Outlay				
Building/Site Acquisitions	0	0	44,273	44,273
Building Construction and Improvements	0	0	189,335	189,335
Other	0	0	89,973	89,973
Equipment	0	0	129,156	129,156
Total Expenditures	<u>\$1,467,406</u>	<u>\$638,597</u>	<u>\$452,737</u>	<u>\$2,558,740</u>
Net Change in Fund Balance	<u>(\$4,889)</u>	<u>(\$30,509)</u>	<u>\$7,972</u>	<u>(\$27,426)</u>
<u>NET ASSETS - BEGINNING</u>	<u>80,320</u>	<u>152,486</u>	<u>59</u>	<u>232,865</u>
<u>NET ASSETS - ENDING</u>	<u>\$75,431</u>	<u>\$121,977</u>	<u>\$8,031</u>	<u>\$205,439</u>

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
SPECIAL REVENUE FUND  
COMBINING BALANCE SHEET  
AS OF JUNE 30, 2006

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTALS</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$59,264	\$2,072	\$61,336
Due from Other Governmental Units	6,114	0	6,114
Prepaid Expenses	4,859	2,328	7,187
Inventory	13,658	0	13,658
<u>TOTAL ASSETS</u>	<u>\$83,895</u>	<u>\$4,400</u>	<u>\$88,295</u>
<u>LIABILITIES</u>			
Accounts Payable	\$0	\$250	\$250
Due to Other Funds	3,303	9,311	12,614
Total Liabilities	\$3,303	\$9,561	\$12,864
<u>FUND EQUITY</u>			
Reserved for Inventory	13,658	0	13,658
Unreserved and Undesignated	66,934	(5,161)	61,773
Total Fund Equity	\$80,592	(\$5,161)	\$75,431
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$83,895</u>	<u>\$4,400</u>	<u>\$88,295</u>

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
SPECIAL REVENUE FUND  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2006

<u>REVENUES</u>	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTALS</u>
<u>Local Sources</u>			
Cafeteria Sales	\$496,820	\$0	\$496,820
Athletic Activities	0	115,159	115,159
Earnings on Investments and Deposits	1,679	94	1,773
Other Local Revenues	1,919	48,047	49,966
Total Local Sources	<u>\$500,418</u>	<u>\$163,300</u>	<u>\$663,718</u>
<u>State Sources</u>			
State Reimbursements	38,759	0	38,759
<u>Federal Sources</u>			
Federal Reimbursements	297,237	0	297,237
Commodities	40,903	0	40,903
Total Federal Sources	<u>\$338,140</u>	<u>\$0</u>	<u>\$338,140</u>
Total Revenues	<u>\$877,317</u>	<u>\$163,300</u>	<u>\$1,040,617</u>
<u>OTHER FINANCING SOURCES</u>			
Transfers from General Fund	0	421,900	421,900
Total Revenues and Other Financing Sources	<u>\$877,317</u>	<u>\$585,200</u>	<u>\$1,462,517</u>
<u>EXPENDITURES</u>			
Salaries - Professional	34,560	80,715	115,275
Salaries - Non-Professional	240,843	208,098	448,941
Insurances	53,174	28,838	82,012
Fica, Retirement, Etc.	65,920	68,172	134,092
Other Benefits	3,600	0	3,600
Purchased Services	10,625	62,630	73,255
Supplies and Materials	445,208	75,166	520,374
Capital Outlay	12,491	53,546	66,037
Other	6,978	16,842	23,820
Total Expenditures	<u>\$873,399</u>	<u>\$594,007</u>	<u>\$1,467,406</u>
<u>EXCESS REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES</u>	<u>\$3,918</u>	<u>(\$8,807)</u>	<u>(\$4,889)</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$76,674</u>	<u>\$3,646</u>	<u>\$80,320</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$80,592</u>	<u>(\$5,161)</u>	<u>\$75,431</u>

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
DEBT RETIREMENT FUND  
BALANCE SHEET  
FOR THE YEAR ENDED JUNE 30, 2006

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	2001 DEBT
<u>ASSETS</u>	
Cash and Cash Equivalents	\$121,114
Accounts Receivable	863
	<hr/>
<u>TOTAL ASSETS</u>	<u>\$121,977</u>
 <u>FUND EQUITY</u>	
Reserved - Debt Retirement	 <u>\$121,977</u>

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
DEBT RETIREMENT FUND  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2006

	<u>DURANT</u> <u>DEBT</u>	<u>2001</u> <u>DEBT</u>	<u>TOTAL</u>
<u>REVENUES</u>			
<u>Local Sources</u>			
Property Taxes	\$0	\$586,348	\$586,348
Earnings on Investments and Deposits	0	5,779	5,779
Total Local Sources	<u>\$0</u>	<u>\$592,127</u>	<u>\$592,127</u>
<u>State Sources</u>	15,961	0	15,961
Total Revenues	<u>\$15,961</u>	<u>\$592,127</u>	<u>\$608,088</u>
<u>EXPENDITURES</u>			
Redemption of Bond Principal	11,001	370,000	381,001
Interest on Bonded Debt	4,960	251,958	256,918
Other	0	678	678
Total Expenditures	<u>\$15,961</u>	<u>\$622,636</u>	<u>\$638,597</u>
<u>EXCESS REVENUES (UNDER) EXPENDITURES</u>	<u>\$0</u>	<u>(\$30,509)</u>	<u>(\$30,509)</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$0</u>	<u>\$152,486</u>	<u>\$152,486</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$0</u>	<u>\$121,977</u>	<u>\$121,977</u>

INDIVIDUAL FUND SCHEDULES OF  
REVENUES, EXPENDITURES AND  
OTHER FINANCING USES

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
GENERAL FUND  
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
FOR THE YEAR ENDED JUNE 30, 2006

REVENUES FROMLocal Sources

Property Tax Levy	\$1,339,489
Earnings on Investments and Deposits	66,640
Enrichment Classes	68,313
Rentals	15,226
Tuition	290,371
Donations	26,134
Other Local Revenues	38,902
Total Revenues from Local Sources	<u>\$1,845,075</u>

State Sources

## Unrestricted

State Aid - Foundation - Sec. 20	14,713,360
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## Restricted

At Risk	279,239
Special Education	405,664
Adult Education	35,876
Vocational Education	32,821
Michigan School Readiness	52,800
Durant	22,729
State Grants from ISD	125,684

Total Revenues from State Sources	<u>\$15,668,173</u>
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Federal Sources

Title I	186,595
Title V	938
Enhancing Education through Technology	3,581
Improving Teacher Quality	84,438
Safe & Drug Free Schools	2,600
Mediciad	13,882
Grants from ISD	6,647

Total Revenues from Federal Sources	<u>\$298,681</u>
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Total Revenues	<u>\$17,811,929</u>
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OTHER FINANCING SOURCES

Sale of Assets	12,883
Insurance Claims	5,500
Refund Prior Year Expenditures	30,649
Transfers from Other Governmental Units	297,929
Total Other Financing Sources	<u>\$346,961</u>

<u>TOTAL REVENUES AND OTHER FINANCING SOURCES</u>	<u><u>\$18,158,890</u></u>
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CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2006

INSTRUCTIONBASIC PROGRAMSElementary

Salaries - Professional	\$2,140,533
Salaries - Non-Professional	303,422
Insurances	623,005
Fica, Retirement, Etc.	540,588
Other Benefits	9,680
Purchased Services	6,556
Supplies and Materials	103,733
Capital Outlay	20,513
Total Elementary	<u>\$3,748,030</u>

Middle School

Salaries - Professional	1,269,730
Salaries - Non-Professional	89,415
Insurances	328,269
Fica, Retirement, Etc.	310,402
Other Benefits	4,764
Purchased Services	3,270
Supplies and Materials	86,080
Capital Outlay	40,909
Other	851
Total Middle School	<u>\$2,133,690</u>

High School

Salaries - Professional	1,239,442
Salaries - Non-Professional	174,080
Insurances	331,516
Fica, Retirement, Etc.	306,109
Other Benefits	4,105
Purchased Services	85,749
Supplies and Materials	77,123
Capital Outlay	85,634
Other	1,399
Total High School	<u>\$2,305,157</u>

Preschool - Children's Services

Salaries - Professional	29,927
Salaries - Non-Professional	217,143
Insurances	14,355
Fica, Retirement, Etc.	58,017
Purchased Services	7,701
Supplies and Materials	49,991
Capital Outlay	6,593
Total Preschool - Children's Services	<u>\$383,727</u>

Total Basic Programs

\$8,570,604

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2006

INSTRUCTION (Continued)ADDED NEEDSSpecial Education

Salaries - Professional	\$738,550
Salaries - Non-Professional	134,704
Insurances	199,690
Fica, Retirement, Etc.	199,940
Other Benefits	1,200
Purchased Services	1,371
Supplies and Materials	16,842
Capital Outlay	405
Other	1,473
Total Special Education	<u>\$1,294,175</u>

Compensatory Education

Salaries - Professional	78,643
Salaries - Non-Professional	165,666
Insurances	17,092
Fica, Retirement, Etc.	55,387
Purchased Services	81,296
Supplies and Materials	10,448
Total Compensatory Education	<u>\$408,532</u>

Vocational Education - High School

Salaries - Professional	362,017
Salaries - Non-Professional	61,423
Insurances	105,444
Fica, Retirement, Etc.	87,869
Other Benefits	1,010
Purchased Services	48,037
Supplies and Materials	26,617
Capital Outlay	19,265
Other	924
Total Vocational Education - High School	<u>\$712,606</u>

Total Added Needs \$2,415,313

Adult Education

Salaries - Professional	34,725
Insurances	15,162
Fica, Retirement, Etc.	8,258
Purchased Services	700
Supplies and Materials	1,298
Other	210
Total Adult Education	<u>\$60,353</u>

Total Instruction \$11,046,270

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2006

SUPPORT SERVICES

Student Services

Salaries - Professional	\$203,126
Salaries - Non-Professional	73,409
Insurances	75,454
Fica, Retirement, Etc.	58,912
Purchased Services	1,452
Supplies and Materials	2,885
Total Student Services	<u>\$415,238</u>

Instructional Support

Salaries - Professional	190,860
Salaries - Non-Professional	263,046
Insurances	51,200
Fica, Retirement, Etc.	107,936
Purchased Services	49,651
Supplies and Materials	47,544
Capital Outlay	50,933
Other	158
Total Instructional Support	<u>\$761,328</u>

General Administration

Salaries - Professional	101,602
Salaries - Non-Professional	39,391
Insurances	30,648
Fica, Retirement, Etc.	33,971
Other Benefits	7,147
Purchased Services	67,693
Supplies and Materials	10,477
Capital Outlay	3,018
Other	5,548
Total General Administration	<u>\$299,495</u>

School Administration

Salaries - Professional	661,369
Salaries - Non-Professional	193,319
Insurances	176,372
Fica, Retirement, Etc.	202,839
Other Benefits	2,200
Purchased Services	66,379
Supplies and Materials	26,279
Capital Outlay	3,188
Other	3,610
Total School Administration	<u>\$1,335,555</u>

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2006

SUPPORT SERVICES (Continued)

Business Office

Salaries - Professional	\$88,635
Salaries - Non-Professional	29,339
Insurances	31,340
Fica, Retirement, Etc.	27,955
Other Benefits	1,200
Purchased Services	51,992
Supplies and Materials	3,268
Capital Outlay	1,820
Other	60,464
Total Business Office	<u>\$296,013</u>

Operation and Maintenance of Plant

Salaries - Professional	49,155
Salaries - Non-Professional	561,244
Insurances	231,180
Fica, Retirement, Etc.	158,623
Purchased Services	279,305
Supplies and Materials	696,404
Capital Outlay	3,038
Other	4,358
Total Operation and Maintenance of Plant	<u>\$1,983,307</u>

Transportation

Salaries - Professional	49,155
Salaries - Non-Professional	372,667
Insurances	53,841
Fica, Retirement, Etc.	110,569
Purchased Services	31,349
Supplies and Materials	148,410
Capital Outlay	67,788
Other	47
Total Transportation	<u>\$833,826</u>

Other Support Services

Salaries - Professional	71,880
Salaries - Non-Professional	42,135
Insurances	28,534
Fica, Retirement, Etc.	26,914
Purchased Services	102,308
Supplies and Materials	31,472
Capital Outlay	30,083
Other	1,100
Total Other Support Services	<u>\$334,426</u>

<u>Total Support Services</u>	<u>\$6,259,188</u>
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CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2006

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COMMUNITY SERVICES

Salaries - Professional	\$34,560
Salaries - Non-Professional	27,166
Insurance	20,514
Fica, Retirement, Etc.	13,890
Purchased Services	36,501
Supplies and Materials	10,668
Capital Outlay	729
Other	1,185
Total Community Services	<u>\$145,213</u>

<u>Total Expenditures</u>	\$17,450,671
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OTHER FINANCING USES

Other Transfers	9,428
Transfers to Other Funds	871,900
Total Other Financing Uses	<u>\$881,328</u>

TOTAL EXPENDITURES AND OTHER  
FINANCING USES

	<u>\$18,331,999</u>
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CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
TRUST AND AGENCY FUND  
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2006

STUDENT GROUPS	Due to (From) Student Groups July 1, 2005	Receipts	Disbursements	Due to (From) Student Groups June 30, 2006
<u>HIGH SCHOOL</u>				
Art Club	\$1,482	\$2,164	\$2,966	\$680
Auto Shop	435	7,431	7,477	389
Band Misc.	329	15,791	14,168	1,952
Banquet Account	1,763	955	1,324	1,394
Business Professionals of America	186	754	940	0
Cavalier Gear	1,727	3,288	4,671	344
Cheerleaders	974	6,811	7,785	0
Choir	143	78	142	79
CHS News	627	250	500	377
Class Of 2001	5,365	0	0	5,365
Class Of 2003	5,381	0	0	5,381
Class Of 2005	4,523	30	500	4,053
Class Of 2006	5,234	7,775	8,356	4,653
Class Of 2007	1,317	4,254	2,620	2,951
Class Of 2008	908	1,910	240	2,578
Class of 2009	0	1,945	1,178	767
Costa Rica	886	1,349	0	2,235
Drama Club	8,350	4,889	8,292	4,947
Electricity	33	539	572	0
FFA	5,708	64,463	66,629	3,542
Flower Fund	16	436	411	41
Graphic Arts	1,122	0	208	914
Interest on Savings	2,276	4,638	3,522	3,392
Library Misc.	1,500	1,199	2,699	0
Metals	374	680	741	313
Miscellaneous	1,613	29,931	30,325	1,219
National Honor Society	908	3,512	3,970	450
Pom-Pon Squad	53	150	0	203
PTO Group	1,147	3,899	4,093	953
School Paper	43	372	0	415
Science Club	10,552	38,150	39,597	9,105
Ski Club	166	0	166	0
Spanish Club	79	806	736	149
Spanish Trip	200	3,379	761	2,818
Student Council	4,656	4,556	2,520	6,692
Teachers Machines	26	754	780	0
Track (Champ. Of Champ.)	182	0	182	0
Woods	377	1,066	1,443	0
Yearbook	10,261	8,930	8,801	10,390
Total High School	<u>\$80,923</u>	<u>\$227,134</u>	<u>\$229,315</u>	<u>\$78,742</u>

## CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN

## TRUST AND AGENCY FUND

## SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS

FOR THE YEAR ENDED JUNE 30, 2006

STUDENT GROUPS	Due to (From) Student Groups July 1, 2005	Receipts	Disbursements	Due to (From) Student Groups June 30, 2006
<u>MIDDLE SCHOOL</u>				
Band Fund	\$592	\$2,582	\$2,342	\$832
Choir	407	0	0	407
Industrial Arts Tech	2,116	3,703	2,947	2,872
Interest Fund	9	0	9	0
Journalism	642	120	34	728
Library	441	6,985	6,673	753
Pep Club	6,328	34,916	39,115	2,129
Sixth Grade Store	438	0	0	438
Ski Club	0	566	459	107
Staff Flowers	525	378	282	621
Yearbook	4,327	10,867	8,571	6,623
Total Middle School	<u>\$15,825</u>	<u>\$60,117</u>	<u>\$60,432</u>	<u>\$15,510</u>
<u>LOUISE PEACOCK SCHOOL</u>				
Cavalier Store Fund	372	880	1,228	24
Field Trip Fund	1,178	2,090	1,436	1,832
Interest Fund	57	83	94	46
Library Fund	2,226	5,066	6,016	1,276
Picture Fund	11	7,382	6,126	1,267
Popcorn Fund	3,975	5,488	4,432	5,031
Student Council Fund	175	139	249	65
Total Louise Peacock School	<u>\$7,994</u>	<u>\$21,128</u>	<u>\$19,581</u>	<u>\$9,541</u>
<u>ELSA MEYER SCHOOL</u>				
Title I	92	0	0	92
Flower Fund	100	1,105	882	323
Interest Fund	104	118	135	87
Leader Den	0	797	587	210
Library Fund	3,607	11,607	14,235	979
Picture Fund	3,120	2,438	3,741	1,817
Popcorn Fund	3,825	5,207	4,951	4,081
PTO Fund	744	5,143	5,364	523
Vending Fund	267	47	291	23
Total Elsa Meyer School	<u>\$11,858</u>	<u>\$26,462</u>	<u>\$30,186</u>	<u>\$8,134</u>

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGANTRUST AND AGENCY FUNDSCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTSFOR THE YEAR ENDED JUNE 30, 2006

STUDENT GROUPS	Due to (From) Student Groups July 1, 2005	Receipts	Disbursements	Due to (From) Student Groups June 30, 2006
<u>NELLIE REED SCHOOL</u>				
Picture Fund	\$2,601	\$27,505	\$20,961	\$9,145
Popcorn Fund	1,627	8,540	10,015	152
Total Nellie Reed School	<u>\$4,228</u>	<u>\$36,045</u>	<u>\$30,976</u>	<u>\$9,297</u>
<u>CHILDREN SERVICES</u>	540	19,842	20,126	256
<u>ADMINISTRATIVE</u>				
Activity Fund	301	184	410	75
Activity P Fund	872	789	1,090	571
Superintendent Checking	83	6	30	59
Total Administrative	<u>\$1,256</u>	<u>\$979</u>	<u>\$1,530</u>	<u>\$705</u>
<u>TOTALS</u>	<u>\$122,625</u>	<u>\$391,707</u>	<u>\$392,146</u>	<u>\$122,186</u>

CORUNNA PUBLIC SCHOOLS - CORUNNA, MICHIGAN  
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

<u>1998 DURANT RESOLUTION PACKAGE BONDS</u>				
<u>PAYMENT DATE - MAY 15TH</u>	<u>INTEREST RATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST REQUIREMENT</u>	<u>TOTAL PAYMENT</u>
2007	4.761353%	\$11,523	\$4,435	\$15,958
2008	4.761353%	12,074	3,887	15,961
2009	4.761353%	12,649	3,312	15,961
2010	4.761353%	13,251	2,710	15,961
2011	4.761353%	54,931	20,388	75,319
2012	4.761353%	14,542	1,418	15,960
2013	4.761353%	15,234	725	15,959
<u>TOTAL</u>		<u>\$134,204</u>	<u>\$36,875</u>	<u>\$171,079</u>

2001 SCHOOL BUILDING AND SITE BONDS					
	INTEREST RATE	PRINCIPAL REQUIREMENT	MAY INTEREST REQUIREMENT	NOVEMBER INTEREST REQUIREMENT	TOTAL PAYMENT
PAYMENT DATE					
2006-2007	4.125%	\$390,000	\$118,348	\$118,348	\$626,696
2007-2008	4.125%	410,000	110,304	110,304	630,608
2008-2009	4.125%	435,000	101,848	101,847	638,695
2009-2010	4.125%	455,000	92,876	92,876	640,752
2010-2011	4.125%	480,000	83,491	83,491	646,982
2011-2012	4.125%	505,000	73,591	73,591	652,182
2012-2013	4.125%	535,000	63,175	63,175	661,350
2013-2014	4.200%	565,000	52,141	52,141	669,282
2014-2015	4.200%	595,000	40,276	40,276	675,552
2015-2016	4.375%	625,000	27,781	27,781	680,562
2016-2017	4.375%	645,000	14,109	14,109	673,218
TOTAL		\$5,640,000	\$777,940	\$777,939	\$7,195,879



# Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

July 21, 2006

To the Board of Education of  
Corunna Public Schools

In planning and performing our audit of the financial statements of Corunna Public Schools for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Corunna Public Schools' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

The following items that are an immaterial internal control or administrative consideration came to our attention.

## CURRENT YEAR FINDINGS

### 1. Budgets and Budgetary Accounting

1968 PA 2 provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2006, Corunna Public Schools incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

## FUTURE ISSUES

### 1. MDE Changes Enforcement of Budgeting Act

The Michigan Department of Education (MDE) recently notified all Michigan School Districts that it was implementing changes in its enforcement of the Uniform Budgeting and Accounting Act. From their perspective, MDE is making this policy change in an effort to elevate awareness of the importance of proper budgeting and the need for district procedures to be in place to detect budget violations. MDE has not aggressively pursued these violations in past years, but has stated their intention to change that policy retroactively to the 2004-05 fiscal year. For that year, the Department has indicated that they are only focusing on the General Fund and will only act upon *Total Expenditures* violations that exceed 1% of the Total Expenditures budget and *Total Other Financing Uses* violations that exceed 1% of the Total Other Financing Uses budget.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (overspending your budget)
- Ending the fiscal year with a deficit (negative fund balance), and
- Adopting a budget that, when implemented, would put the district in a deficit.



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#### FUTURE ISSUES (Continued)

- The Department is also currently considering that a violation of the Act also includes the situation where the district did not achieve their full revenue budget and, at the same time, depleted the district fund balance beyond what had been approved by the school board.

Amending your budget before June 30 of each year is the main way to avoid receiving a violation letter from the Department.

#### 2. GASB 45

GASB Statement No. 45 was issued in June 2004 and is effective prospectively in three phases in periods beginning after December 15, 2006. For Corunna Public Schools, the effective implementation date must begin by June 30, 2008. OPEB are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they retire. They include all postemployment healthcare benefits. They also include any other type of benefits that are provided separately from a pension plan, such as life insurance, legal services, and any other benefits that the employer may provide. OPEB exclude any non-healthcare benefits provided through a pension plan.

The basic premise of GASBS No. 45 is that OPEB are earned and should be recognized when the employee provides services, just like wages or salaries paid at the end of each pay period. But because these benefits cannot be used until the employee is no longer working, they are not paid in cash until a date that may extend well into the future.

The District may wish to begin gathering the nonfinancial information needed to generate their first actuarial valuation of OPEB. Information that will be requested by actuaries will be similar to that used for pension benefit calculations and includes:

- \* Listing of all benefits provided by the OPEB plan—as the terms are understood by the employer and the plan members. (This would be a good time to work with employees to convert unwritten/understood benefits to written policy.)
- \* Past OPEB claims experience for the covered group—as far back as needed to create a “credible” experience database or as far back as data is available. (Actuaries will need to use a database for a comparable entity if the government is not able to generate its own database.)
- \* Census information about individual active and inactive plan participants, including age, sex, length of service, and so forth.

#### 3. Cash Management of Federal Grants

The advance provisions of the Cash Management Improvement Act (CMIA) requires that advances be limited to three days cash needs. The Michigan Department of Education will no longer allow thirty day cash advances for ongoing programs.



Corunna Public Schools

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A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of Corunna Public Schools' Board of Education and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Lewis & Knopf P.C.*

LEWIS & KNOPF, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS